FolioBeyond

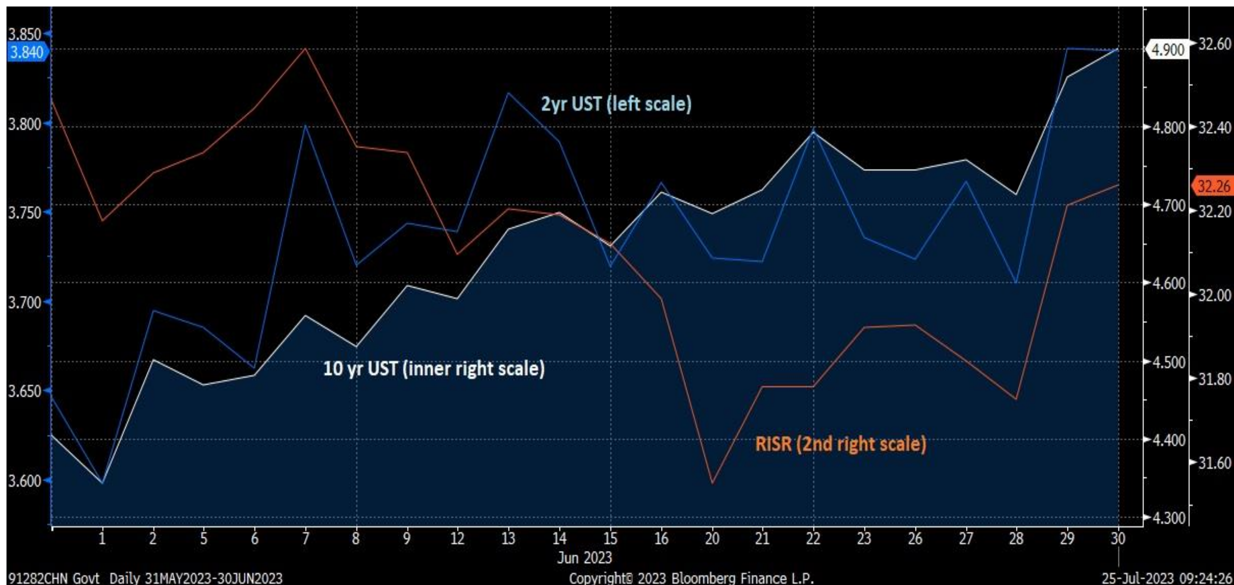
RISR COMMENTARY FOR June 2023

Performance Summary

The FolioBeyond Rising Rates ETF (ticker: RISR) returned -0.07% based on the closing market price (-0.09% based on net asset value or "NAV") in June. In comparison, the ICET7IN Index (US Treasury 7-Year Bond Inversed Index) returned 1.23% while the Bloomberg Barclays U.S. Aggregate Bond Index ("AGG") returned -0.36% during the same period.

The Fund's performance was basically flat over the course of the month as interest rates churned in a mostly direction-less fashion, until the last two sessions when the 10-year rate jumped by 13 bps to end the month at 3.84%. By then most market participants had checked out for the long July 4th holiday weekend, so the price action in response was muted.

Intra-month, the fund saw considerable volatility, however. The chart below shows a drop in price of 3.18% between June 6 ($32.59) and June 20 ($31.55) despite no discernable fundamental change in the rate environment, other than a mild flattening between 2s and 10s. This move was largely reversed by month end, as a relentlessly rising 10-year rate overwhelmed this effect.



The reason that a flatter—or more inverted—yield curve may have an adverse effect on IO prices is complex, but ultimately relates to prepayment speed assumptions. All other factors being equal, a steeper yield curve, where long term rates are much higher than short term rates, is generally associated with slower projected prepayment speeds going forward. A flatter or more inverted curve often portends faster speeds. However, this relationship is confounded by the implications for prepayment speeds from faster economic growth, which is typically associated with a steeper yield curve, vs. slower economic growth which flows flatter or inverted curves. The effects are complex

and dynamic. It is for this reason, that like nearly all MBS investors, we rely on computer prepayment models, which aim to capture the various interactions between multiple factors, including but not limited to the level of interest rates. The best models get it right more often than not, but there is always some degree of uncertainty and volatility around forecasts, especially in slow mid-summer markets. Over time, we believe this noise mostly cancels out. Our main focus is on longer-term trends and broad economic fundamentals. We don't spend too much time worrying about day-to-day variability.

This is further supported by our ability to maintain our stabilized dividend of $0.18/share, which corresponds to an SEC Yield of 7.01%[1]. In addition, RISR has produced a Sharpe ratio of 0.53, as compared to 0.7 for the S&P 500, and -0.93 for the Bloomberg Bond Market Aggregate Indices, both of which deliver much lower dividend rates.

RISR has also continued to deliver diversification benefits vs. the broad bond market, as well as large cap stocks and the tech sector where many investors have outsized exposures.

Return Correlations (TTM as of 6/30/2023)				
	RISR	**Bloomberg Aggregate Bond Index**	**S&P 500 Index**	**Nasdaq 100 Index**
RISR	***1.000***			
Bloomberg Aggregate Bond Index	***-0.569***	1.000		
S&P 500 Index	***0.006***	0.246	1.000	
Nasdaq 100 Index	***-0.044***	0.264	0.951	1.000

Source: Bloomberg, L.P.

Name Change

The Fund name change we previously announced to "FolioBeyond Alternative Income and Interest Rate Hedge ETF" became effective June 26. When we launched RISR in October of 2021, we were strongly convinced that interest rates were going to rise materially and quickly. The financial repression that policy makers in the US and the euro-zone had engineered for decades had run its course, and we perceived the emergence of a new regime of a more normalized environment. While few would admit it publicly, policy makers were forced to acknowledge that ZIRP (zero interest rate policy) had been a historic error, that had inflated asset prices and caused massive distortions in resource allocation and wealth distributions. And beginning in 2021 it led to the most serious inflation in 40 years.

Consistent with that belief, and to communicate our conviction to investors, we elected to name the fund the Rising Rates ETF. Performance in 2022 and continuing so far into 2023 has validated our outlook. We always recognized, however, that this strategy had benefits far beyond a simple bet on higher interest rates. We understood from the beginning, that our ability to deliver a negative duration profile, low correlation to traditional strategies together with an attractive rate of

[1] Determined as of 7/24/2023. The 30-Day SEC Yield is calculated with a standardized formula mandated by the SEC. The formula is based on the maximum offering price per share.

current income should have appeal to a broad range of investors and investment advisors.

We believe this name change better reflects the utility of our strategy to a broader audience, beyond those who take a directional view on interest rates. We always discussed these benefits in direct conversations with investors, but the name change makes it clear that we intend for this fund to deliver benefits to investors looking to prudently manage risk, regardless of the general direction of rates. No matter your view on future Federal Reserve policy, we think everyone can agree that managing risk is a smart thing to do. We intend to make it even more clear that RISR can be a useful tool in that process. If you have questions about this change, please contact us.

Outlook

We have been consistent for almost two years in our conviction that the Federal Reserve's war on inflation was going to be much more difficult and require more sustained effort than market consensus suggested. The pace and magnitude of rate hikes have far exceeded the expectations of most market pundits, and the relentless predictions of a "pivot" to rate cuts have been soundly thrashed.

Last month, the "pause" in the hiking cycle announced by the Fed on June 14, leaving the Fed Funds rate at 5.25%, represents the first time in 10 meetings that rates were not explicitly raised. This clearly signals a change—but a change to what?

Immediately following the announcement, the "pivot pundits" predictably reappeared, claiming that the Fed would soon switch to cutting rates once again in order to forestall a looming economic slowdown. Except there has been no economic slowdown, and in our view, the prospects for a slowdown in the near term are very low. The labor market is still showing near-record demand for workers. Wage pressures have not receded. Home prices, which many predicted would collapse, have remained firm. The stock market continues to rise, albeit on the backs of a handful of mega-cap stocks like Apple and Alphabet. These are the "big three" indicators most people correctly look at when assessing the outlook. Other indicators such as retail sales, inventories, energy demand, etc. are important. But if the job market, the housing market and the stock market are strong, a recession is exceedingly unlikely to spontaneously emerge.

This means that aggregate demand is still pressuring aggregate supply, and inflationary pressures are still exigent. The Fed knows this, and that is why Jay Powell was exceedingly careful in his post meeting press conference to stress that the battle is not yet won. This pause was precisely that—a moment to assess and evaluate what has occurred and where financial conditions stand, especially for the banking system and the clouds on the horizon from commercial real estate.

So, what should prudent investors do? While we are closer to the end of this hiking cycle than we are to the beginning, we don't see outright rate cuts anytime soon. We believe that "higher for longer" is the odds-on most likely scenario, accompanied by continued high volatility. The lack of clarity and wildly varying views among market participants make this an exceptionally perilous environment in which to make big directional bets.

People calling for near-term rate cuts and a rapid return to the historically low interest rates are acting like someone breaking out the sunscreen and beach chairs on Groundhog Day. Shadow seen or not, there is still a lot of winter left in this Fed policy cycle. The real smart money will be

managing risk, keeping durations short and avoiding big directional bets.

RISR has been specifically engineered to help in that process. We designed the strategy to have broad appeal to a range of investors, who share with us a belief in the wisdom of prudently managing risk. RISR can help in that effort, offering a low correlation to many key market sectors, together with a high current dividend.

Please contact us to explore how RISR might fit into your overall strategy, to help you manage risk while generating an attractive current yield.

Performance

	As of June 30, 2023			
	1 MO	3 MO	YTD	1 YR
RISR Market Price	*-0.07%*	*5.18%*	*5.66%*	*6.51%*
RISR NAV	*-.09%*	*3.61%*	*5.02%*	*5.52%*
Bloomberg Barclays US Aggregate Bond Index[6]	*-0.36%*	*-0.84%*	*2.09%*	*-0.94%*
ICET7IN	*1.23%*	*1.71%*	*-2.07%*	*2.39%*

The performance data quoted represents past performance. Past performance does not guarantee future results. The investment return and principal value of an investment will fluctuate so that an investor's shares, when sold or redeemed, June be worth more or less than their original cost and current performance June be lower or higher than the performance quoted. Performance current to the most recent month-end can be obtained by calling 866-497-4963. Short term performance, in particular, is not a good indication of the fund's future performance, and an investment should not be made based solely on returns. Returns beyond 1 year are annualized.

A fund's NAV is the sum of all its assets less any liabilities, divided by the number of shares outstanding. The market price is the most recent price at which the fund was traded. The fund intends to pay out income, if any, monthly. There is no guarantee these distributions will be made.

Total Expense Ratio is **0.99%.**

For standardized performance click here

Portfolio Applications

We believe RISR provides an attractive, thematic strategy that provides strong correlation benefits for both fixed income and equity portfolios. It can be utilized as part of a core holding for diversified portfolios or as an overlay to manage the interest rate risk of fixed income portfolios. Alternatively, RISR can be used as a macro hedge against rising interest rates with less exposure to equity beta and negative correlation to fixed income beta. The underlying bonds are all U.S. agency credit that are guaranteed by FNMA, FHLMC or GNMA. There is no financing leverage or explicit short positions that

relies on borrowed securities. Also, timing is on our side as the strategy generates current income if interest rates were to remain within a trading range.

Please contact us to explore how RISR can be utilized as a unique tool to adjust your portfolio allocations in the current inflationary environment.

Yung Lim
Chief Executive Officer
Chief Investment Officer
ylim@foliobeyond.com
917-892-9075

Dean Smith
Chief Strategist and Marketing Officer
Portfolio Manager of RISR
dsmith@foliobeyond.com
914- 523-2180

George Lucaci
Global Head of Distribution
glucaci@foliobeyond.com
908-723-3372

This material must be preceded or accompanied by a prospectus. For a copy of the prospectus please click here

Investments involve risk. Principal loss is possible. Unlike mutual funds, ETFs June trade at a premium or discount to their net asset value. The fund is new and has limited operating history to judge fund risks. The value of MBS IOs is more volatile than other types of mortgage related securities. They are very sensitive not only to declining interest rates, but also to the rate of prepayments. MBS IOs involve the risk that borrowers June default on their mortgage obligations or the guarantees underlying the mortgage-backed securities will default or otherwise fail and that, during periods of falling interest rates, mortgage-backed securities will be called or prepaid, which June result in the Fund having to reinvest proceeds in other investments at a lower interest rate.

The Fund's derivative investments have risks, including the imperfect correlation between the value of such instruments and the underlying assets or index; the loss of principal, including the potential loss of amounts greater than the initial amount invested in the derivative instrument. The value of the Fund's investments in fixed income securities (not including MBS IOs) will fluctuate with changes in interest rates. Typically, a rise in interest rates causes a decline in the value of fixed income securities owned indirectly by the Fund. Please see the prospectus for a complete description of principal risks.

Diversification does not eliminate the risk of experiencing investment losses.

Index Definitions

Bloomberg Barclays US Aggregate Bond Index: A broad-based benchmark that measures the investment grade, US dollar-denominated, fixed-rate taxable bond market. The index includes Treasuries, government-related and corporate securities, MBS (agency fixed-rate and hybrid ARM pass-throughs), ABS and CMBS (agency and non-agency).

US Treasury 7-10 Yr Bond Inversed Index:

ICE U.S. Treasury 7-10 Year Bond 1X Inverse Index is designed to provide the inverse of the daily return of the ICE U.S. Treasury 7-10 Year Bond Index (IDCOT7). ICE U.S. Treasury 7-10 Year Bond Index tracks the performance of US dollar denominated sovereign debt publicly issued by the US government in its domestic market. Qualifying securities of the underlying index must have greater than or equal to seven years and less

than 10 years remaining term to final maturity as of the rebalancing date, a fixed coupon schedule and an adjusted amount outstanding of at least $300 million.

S&P 500 Index:

The S&P 500 Index, or Standard & Poor's 500 Index, is a market-capitalization-weighted index of 500 leading publicly traded companies in the U.S.

Nasdaq 100 Index:

The Nasdaq 100 Index is a basket of the 100 largest, most actively traded companies listed on the Nasdaq stock exchange. The index includes companies from various industries except for the financial industry, like commercial and investment banks.

IBOXHY Index:

iBoxx USD Liquid High Yield Total Return Index measures the USD denominated, sub-investment grade, corporate bond market. The index includes bonds with minimum 1 years to maturity, minimum amount outstanding of USD 400 mil. Bond type includes fixed-coupon, step-up, bonds with sinking funds, medium term notes, callable and putable bonds.

Definitions

Alpha: a return achieved above and beyond the return of a benchmark or proxy with a similar risk level.

Annualized Equivalent Yield: represents the annualized yield based on the most recent month of income distribution: (income distribution x 12 months)/price per share.

Basis Points (bps): Is a unit of measure used in quoting yields, changes in yields or differences between yields. One basis point is equal to 0.01%, or one one-hundredth of a percent of yield and 100 basis points equals 1%.

Beta measures: the volatility of a security or portfolio relative to an index. Less than one means lower volatility than the index; more than one means greater volatility.

Coupon: is the annual interest rate paid on a bond, expressed as a percentage of the bond's face value.

Correlation: a statistic that measures the degree to which two securities move in relation to each other.

Convexity: A measure of how the duration of a bond changes in correlation to an interest rate change. The greater the convexity of a bond the greater the exposure of interest rate risk to the portfolio.

CUSIP: An identifier number that stands for the Committee on Uniform Securities Identification Procedures assigned to stocks and registered bonds in the United States and Canada.

Duration: measures a bond price's sensitivity to changes in interest rates. The longer a bond's duration, the higher its sensitivity to changes in interest rates and vice versa.

GNMA: Government National Mortgage Association

FNMA: Federal National Mortgage Association

FHLMC: Federal Home Loan Mortgage Corporation

Sharpe Ratio: measures the average return minus the risk-free return divided by the standard deviation of return on an investment.

Short Investment (Shorting): is a position that has been sold with the expectation that it will decrease in value, the intention being to repurchase it later at a lower price.

TTM: trailing twelve months

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